



Accountability Of Primary Agricultural Cooperative Credit Societies Under Globalised Era.

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Introduction

This paper analyses the performance of farmers' service societies (FSS) vis-a-vis primary agricultural cooperative credit societies (PACS). Since both FSS and PACS are cooperatives, their objectives include not only viability but also well being of their members and development of the society at large. Therefore, the performance of these organizations must be evaluated at two levels, namely, organization level and members level. This requires collection and analysis of data for both these economic units. This paper, however, analyses only organizational data though the criteria adopted for this analysis also permit drawing performance implications from the standpoint of members.

The study in this paper is comparative in nature as the institutional innovation of FSS was primarily due to the realization that PACS were unable to be multipurpose in their functions and also by-passed the weaker sections like agricultural labourers, marginal farmers, small farmers and artisans.

Past studies on FSS covered early and short period of their working. Some of these studies found that:

- Dependence of the members of FSS on informal lenders had declined [Brahmbhat et al. 1978]
- Growth in membership of weaker sections had steadily improved [Rama et al. 1989]
- Recovery/collection of loans advanced was higher [Murthy et al. 1989; Rama et al. 1989].
- Some other studies revealed that FSS did not have:
- qualified technical and managerial personnel [GOI, 1976; Mukhopadhyay, 1982]
- Long-term and consumption credit in their lending portfolio [GOI, 1976; Mukhopadhyay, 1982, and Ramaef«M989]
- Multi-functional structure of their operations [GOI, 1976].

Most of these studies concluded that FSS were not much different from PACS. Even policy support for FSS receded on the assumption that this institutional innovation had failed. These conclusions, however, need to be re-evaluated as they suffer from methodological and conceptual weaknesses related to performance criteria which will be discussed in the third and fourth sections of this paper.

Features of FSS and PACS

Both these field-level rural financial institutions (RFIs) have been introduced for economic and non- economic reasons such as extending credit integrated with modern inputs and commodity markets related services, improving rural poor's share in formal credit and organizing a force to counter the usurious power of village moneylenders. But there are important differences in the emphasis on these factors.

PACS came into being after the enactment of the Cooperative Credit Societies Act in 1904. This Act was subsequently revised in 1912 to promote multi-purpose cooperatives and to organize non-credit cooperatives. However, they picked

up momentum only after the Reserve Bank of India recommended them in 1937 and the Five Year Plans provided state support for them. Moreover, it was felt that unless credit was organized on a group basis, virtues such as self-help, thrift, and modernized attitudes that are necessary to deal with the local moneylenders could not be promoted. As experience with such group efforts was gained, it was realized that multi-purpose cooperatives which integrated credit with other services would be in a better position to counter the influence of moneylenders-cum-traders. Features such as administration by honorary management and local participation, unlimited (and subsequently limited) liability of the members, small (and subsequently moderately large) size, and simple operations of these cooperatives helped in reducing costs and risks of rural finance operations. These cooperatives were also to receive state partnership in both equity-capital and administrative leadership.

By early 1970s, it was found that these multi-purpose PACS had not succeeded much in diversifying their operations, especially commodity marketing and processing, in reaching the weaker sections and in becoming viable. For these reasons, among others, the National Commission on Agriculture recommended introduction of farmers' service societies (FSS) which would incorporate the following features:

- FSS unlike PACS will have a compact area of operations in 10-20 villages (instead of 5-8 villages for PACS) with a potential of reaching a business of Rs.2.5 to Rs.3 million (instead of Rs.0.2 million for PACS) in 3 to 5 years.
- FSS unlike PACS will have branches and such FSS may even reach a business of Rs.10 million in 5 to 7 years.
- FSS will have an overall strategy of agro-based development to utilize land and manpower.
- FSS membership will be more oriented to the hitherto neglected weaker sections of the rural population.
- FSS management will also be represented by this section.
- FSS will undertake both credit and non-credit (including agro-processing) operations.
- FSS will be a self-paying proposition in the sense that it will meet all its costs within a reasonable period of time.
- FSS like PACS will be an integral part of a three-tiered cooperative credit organization when sponsored by state cooperative banks.
- FSS will be a cooperative organization even when it is sponsored by the commercial banks.
- FSS will have adequate and properly trained managerial and technical personnel.

The first farmers service society was promoted in mid-1970s. By early 1980s, there were over 2,500 FSS. The first primary agricultural cooperative credit society was promoted in early 1900s and "by early 1980s, there were about 92,000 PACS.

Thus, FSS as compared to PACS have three distinct features which are: (a) They are much larger sized field-level RFIs, (b) they have wider scope of operations, and (c) their member-

ship and management are relatively more from the weaker sections. Some more specific features of these two cooperatives are given in Table 1.

Performance Criteria

From the preceding discussion, it appears that four organizational principles have been followed in promoting FSS. These are: (a) vertically integrated organizational structure from local to regional to state/national level (also applicable to PACS to some extent), (b) higher density of field-offices of FSS, (c) larger coverage of clients with specific focus on the weaker sections, and (d) multi-functional structure of operations which are horizontally integrated (also applicable to PACS to some extent) (see Figures 1 and 2).

Features	PACS	FSS
Area of Coverage	Generally , a small area of not less than 2000 hectares of cropped area	A large area of operation extending up to a block or population of 10,000.
Type of Beneficiaries	All types of farmers	All farmers and other households including rural artisans, agricultural labourers, etc.
Nature of Credit Business	Short term crop loans and medium term loans for agricultural allied activities	Multi term and multipurpose credit
Nature of non-credit Business	Supply of farm inputs , marketing and processing, and distribution of essential commodities, etc.	Package of Services
Management	a) Full time paid secretary b) Board of directors consisting of 11 members of whom not less than 50 per cent shall represent weaker sections	a) Whole time managing director and functional specialists b) Board of directors consisting of 11 members of whom 5 shall be representatives of weaker sections and 2 shall be elected among other members of the Registrar of Cooperative societies, 1 nominee of the financing bank and the managing director, ex-of-fido

Each of the four organizing principles has implications for the benefit of both FSS and PACS and their members (i.e. rural households). For example, vertically integrated organizational structure of an RFI will have better capability to integrate regional and national level financial markets, provide managerial guidance to its lower level units, enable it to arrive at more interactive understanding for strategic decisions, and also decentralize implementation process. Similarly, higher density of field-branches of an RFI improves accessibility for both the organization and its clients, enables intensifying and widening the scope of lending and non-lending operations to reap scale economies in its transaction costs, facilitates more effective competition with the informal lenders and reduces rural borrowers' and depositors' transaction costs. Horizontally integrated multi-functional structure of operations of an RFI is advantageous in six different ways. It enables achieving (a) agriculture's much required complementarity between working and fixed capital, (b) diversified and robust agricul-

tural and other farm-level economic activities which are often complementary and/or supplementary, (c) larger, non-inflationary production and saving linkages of technological change in agriculture, (d) larger consumption linkages of this change, (e) more effective alternative to informal lenders who operate simultaneously in credit, traditional inputs, and commodity markets, and (f) larger scale and scope economies and thereby increase viability of an RFI in the sense of higher loan collection, recycling of funds as well as profitability. Both quantitative and qualitative criteria need to be conceptualized to test these propositions. For example, the beneficial impact of vertical organizational structure of an RFI may be tested by finding out the extent of financial and managerial guidance that comes from the upper level and how it has changed the time-efficiency and quality of decisions and related services. Similarly, the beneficial impact of higher density of field-branches of an RFI may be tested by analysing the extent of reduction in transaction costs of clients and their organization, the extent of increase in size and scope of its operations and the extent of decline in dependence of clients on informal lenders. The beneficial impact of multi-functional operations can be tested by studying the extent of improvement in clients' income and its stability, efficiency in production, savings and consumption, and improvement in RFI's loan recoveries, deposit mobilization, equity, average transaction costs and their scale economies and profitability.

Figure 1: Vertically and Horizontally Integrated FSS

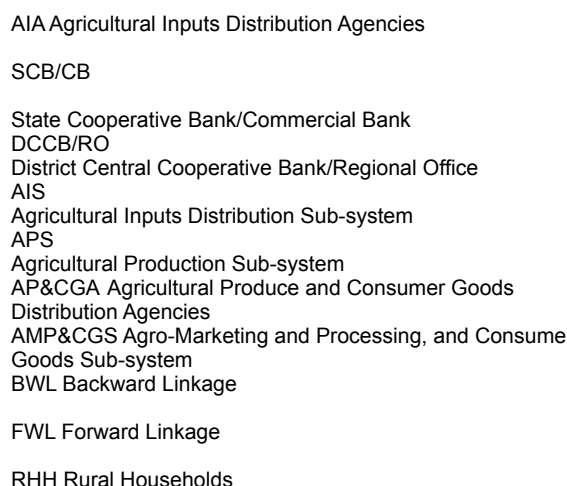
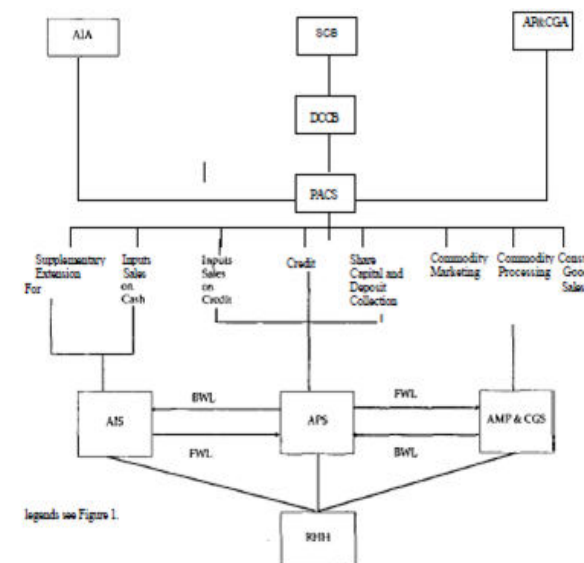


Figure 2: Vertical and Horizontal Integration of PACS



The analysis for application of these criteria requires data from the organization as well as its clients. Since this paper is based exclusively on available secondary data, some of

these propositions related to beneficial impacts are tested by applying the following criteria:

- Coverage of clients with special reference to weaker sections in (a) membership, and (b) borrowing membership.
- Size of operations per society to quantify scale of operations.
- Composition of credit and non-credit operations to draw implications to the extent of diversification and scope of operations and their benefits to the members.
- Average transaction costs.
- Scale and scope economies in these costs.
- Loan delinquency rate.
- Proportion of cooperatives earning profits.

Past studies have mainly concentrated on criteria 1, 2 and 6. Moreover, many of these studies have not analysed these criteria comparatively for FSS and PACS. In some studies, a comparison is made between an FSS and a PACS which have different years of functioning. Comparing the first five years of working of an FSS with a PACS with a longer period of working implies comparison of a pigmy with a giant. The analysis in this paper is devoid of these limitations. Thus, all the seven criteria are comparatively studied by considering the first eight years of working of both PACS and FSS. For PACS, the years chosen are from 1957-58 to 1964-65, i.e., soon after implementation of major restructuring and revitalization policies. For FSS, the corresponding years are 1976-77 to 1983-84. Even a comparison between a pigmy and a giant is attempted in order to develop a perspective on comparative performance of the extent of improvement achieved over a short-term vis-a-vis long-term time frame. Since time series data are utilized, the monetary values of variables are deflated by agricultural NDP deflator.

Results and Analysis

Tables 2 and 3 provide the results. A comparison of columns 2 and 4 in Tables 2 and 3 reveals that FSS have performed better than PACS in respect of four out of seven criteria discussed earlier. These are coverage, scale of operation, composition of credit and non- credit operations, and scale economies in transaction costs. However, considering loan delinquency rate, average transaction costs and proportion of societies in profit, the performance of PACS is better than that of FSS. Since FSS's performance on the last two of the three criteria is comparable to PACS' performance, it is only in respect of the loan delinquency criterion that FSS has an inferior achievement compared to PACS.

This may be because by mid-1970s, the loan recovery climate had deteriorated on account of political factors. In this context, if the loan delinquency rate of FSS is compared with that of PACS during 1976-77 to 1983-84, then the former have done better than the latter. Further, if these two cooperatives are compared for these years, then FSS have performed better than PACS on all the seven criteria (see columns 3 and 4 in Tables 2 and 3). The major failure of FSS is in respect of lower share of borrowing membership and meagre share of produce marketed and processed. The former may be because of a higher loan delinquency rate and the latter is because of (a) competition from private sector and marketing and processing cooperatives, and (b) processing entails highly specialized technical personnel and large capital both of which have not been incorporated in the design of FSS. It is in this restrictive sense that FSS is like PACS which have also not fared well in promoting agro-marketing and processing activities. The reasons for failure of both PACS and FSS in this regard are similar; neither of them possesses any comparative advantage in this operation. Hence, there is no rationale for encouraging these cooperatives to undertake agro-marketing and processing. Considering this, it is quite

clear that an FSS has succeeded as a field-level RFI compared to a PACS. This is further borne out from the annual compound growth rate in(a) loans outstanding and advanced in real terms, (b) deposits in real terms, (c) farm requisites/ inputs supplied in constant prices, and (d) consumer goods sales at such prices (See Table 4).

Conclusions and Implications

The main finding that emerges in this paper is that FSS have performed better than PACS and hence FSS type cooperative financial institutions may be preferred to PACS. However, both FSS and PACS have not succeeded in undertaking agro-marketing and processing functions. Since PACS type of cooperative institutions still dominate, one possibility of making them more effective is to convert them as FSS. This may particularly be done for those PACS which have performed well to enable them to enlarge their scale of operations through both intensive and extensive expansion of their operations. But those PACS which are weak may first be converted into smaller operations so that they would improve the quality of the operations. It would also enable them to intensify their operations in villages covered by them. We hope that implementation of these suggestions would not conflict

Table 2: Comparative Performance of PACS and FSS

	PACS	FSS
Year	1957-58 to 1964-65	Average of 1976-77 to 1983-84
Number of Societies	200204	100455
COVERAGE:		
a) Membership per Society b)	90	574
Distribution of Membership(%)		
i) Farmers above 2 Ha	31.50	26.92
ii) Farmers up to 2 Ha	46.36	53.97
iii) Agri. Labourers iv)	9.55	11.69
Rural Artisans	2.27	2.41
v) Others	8.18	7.01
c) Borrowing Members(%)	49.65	33.37
d) Working Societies(Percentage Share)*		
i) Borrowing Membership ii)	19.36	19.65
Short-Term Loan Advanced	9.44	11.27
iii) Medium Long-Term Loan Advanced	10.25	17.17
2 SCALE OPERATIONS (Rs.Lakhs)		
a) Nominal Terms:		
i) Assets and Liabilities	0.33	7.66
ii) Credit and Non-Credit Operations	0.15	3.18
b) Real Terms(1976-77 = 100)		
i) Assets and Liabilities	0.60	3.91
ii) Credit and Non-Credit Operations	0.26	1.56
3 LOAN TERM STRUCTURE:		
a) Advance(%)		
i) Share of Short-Term Loan	85.64	80.80
ii) Share of Medium Long-Term Loan	14.36	19.20
b) Outstanding(%)		
i) Share of Short-Term Loan	72.37	69.58
ii) Share of Medium Long-Term Loan	27.63	30.42
4 COMPOSITION OF CREDIT AND NON-CREDIT OPERATIONS(%)		
i) Credit Operations	72.81	91.08
ii) Produce Marketed	2.65	1.43
iii) Goods Processed	1.95	0.22
iv) Farm Requisites Supplied	12.28	21.26
v) Consumer Goods Sold	9.24	14.71
vi) Deposits Collected	1.98	1.30
5 LOAN DELINQUENCY RATE	17.34	53.97
6 AVERAGE TRANSACTION COST:		
a) To Assets and Liabilities	0.022	0.017
b) To Total Size of Operation	0.022	0.019
7 SOCIETIES IN PROFIT(%)	68.07	52.83

* Relates to Scheduled Castes and Scheduled Tribes only.
Source: Reserve Bank of India Bulletin, Statistical statement relating to Cooperative Movement in India (various issues).

Table 3: Estimated Double-log Transaction Cost Function of PACS and FSS

Item	PACS		FSS
	1957-58 to 1964-65	1976-77 to 1983-83	1976-77 to 1983-84
1. Scale Parameter	1.424*(0.049)	1.774*(0.188)	0.018**(0.113)
2. Constant	-S.658(0.462)	-12.358(1.988)	-2.682(0.854)
3. R-Bar Square	0.992	0.926	0.881
4. F-Value	833.69	88.487	52.468
5. D.W.Statistics	2.138	2.447	1.968

Statistically ,significantly greater than one suggesting scale diseconomies. ** Statistically , not significantly different from one suggesting constant returns to scale. Figures in parentheses are standard errors.

Table 4: Annual Compound Growth Rate in Credit and Non-Credit Operations %pgr annum

	Deposits	Loan Outstanding	Loan Advanced	Input Sales	Produce Marketed	Produce Processed	Consumer Goods sales
1.PACS 1957-58 to 1964-65	14.28	9.91	11.66	8.05	-5.97	-3.97	-----
1976-77 to 1983-84	8.52	2.51	4.41	6.48	-5.57	8.13	11.78
FSS 1976-77 to 1983-84	28.86	21.98	18.82	22.34	-19.65	-20.76	3.51

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